THE FULL HOUSE TRADER MONTHLY FORECAST

July 2008 Edition
July 17, 2008

Select US Indicators

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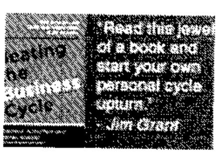


U.S. job losses for sixth straight month

International Business Times

4-July-2008

(International Business Times) - The number of non-farm jobs diminished again in June as expected according to the latest government figures, marking the sixth straight month of job losses.

The U.S. Department of Labor reported on Thursday that the economy lost 62,000 non-farm jobs last month. It also revised downward May's job losses from 49,000 to 62,000. The unemployment rate was steady at 5.5 percent after jumping half a percentage point last month.

"Each additional month of job losses makes it more difficult to argue that the U.S. is not in a recession," said Lakshman Achuthan, managing director of the Economic Cycle Research Institute. "To put it in perspective, we haven't seen four months of losses outside of a recession."

Employment kept falling in construction, manufacturing and employment services, the Labor Department said. Health care and mining added jobs.

"The labor market, in the most positive spin, is that it's very soft if not weakening further," said Jay Bryson, Global Economist with Wachovia Corp.

Achuthan noted that other leading economic indicators including consumer confidence, housing activity, credit conditions are pointing downward.

"All of these, these are drivers of the business cycle and they have yet to turn up," he said. "That's probably the most important thing, that tells us that this downward trend is likely extend."

CONTINUING JOB LOSSES TYPICAL OF ECONOMIC DOWNTURNS...

... THE BIG QUESTION(S) THIS TIME:

1) With illiquid consumers WHAT will restimulate the economy?? (Fiscal stimulus essential)

2) As Medicare Benefits erode, will 70 million baby boom retirees need to downsize their homes en mass?

(1)

In 'Slow-Motion Recession,' the Cycle of Job Losses Is Seen Lasting Into '09

From Page A1

Brothers. "In a normal recession, things kind of collapse and get so weak that you have nowhere to go but up. But we're not getting the classic two or three negative quarters. Instead, we're expecting two years of sub-par growth. Growth that's not enough to generate jobs. It's kind of a chronic rather than an acute pain."

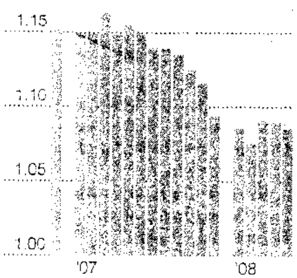
Mr. Harris expects tepid economic growth and a shrinking labor market to persist through the fall of 2009.

The national unemployment rate climbed a full percentage point over the last year to 5.5 percent in May, according to the Labor Department. That does not include people who are jobless

Construction Spending

Total construction spending at a seasonally adjusted annual rate.

	MARCH	APRIL	MAY
$1.20 trillion	+1.4%	−0.1%	**−0.4%**



Source: Commerce Department THE NEW YORK TIMES

and have given up looking for work, or people who have been bumped to part-time jobs from full-time. Add in those people and the so-called underemployment rate rises to 9.7 percent, up from 8.3 percent in May 2007, according to the Labor Department.

Goldman Sachs forecasts that the unemployment rate will peak at 6.4 percent late in 2009 before the picture improves, meaning that the painful process of shedding jobs may be only half-way complete.

"The labor market is clearly deteriorating, and it's highly likely to keep deteriorating," said Andrew Tilton, an economist at Goldman Sachs. "It's clear that the housing downturn and credit crunch are still very much under way. Clearly, there are more jobs to be lost in housing, finance and construction — hundreds of thousands of more jobs to be lost collectively."

On Thursday, the Labor Department will release its snapshot of the job market for June. Economists generally expect the report to show 60,000 more jobs lost, marking the sixth consecutive month of decline.

But many anticipate the unemployment rate will nudge down a little bit, swinging back from an abrupt climb that could have been exaggerated by survey glitches in the previous month, when the rate jumped by half a percentage point — the sharpest one-month spike in 22 years.

If the unemployment rate were to hold steady or rise, that would likely spook markets, underscoring the impact of the economic slowdown.

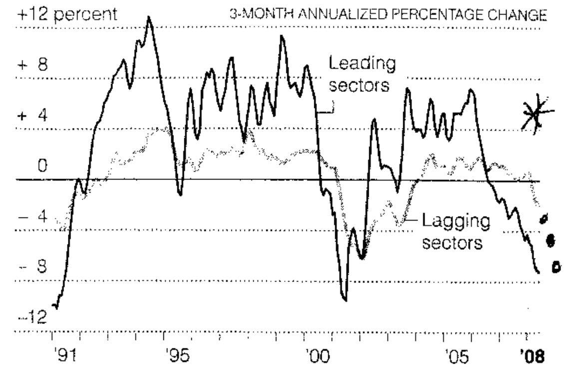
Gloomy Prospects

Jobs in leading business sectors, which tend to suffer early in a downturn, have already had losses. But those in lagging sectors, which tend to lose jobs later, have yet to show steep losses — suggesting that more layoffs could be ahead.

LEADING SECTORS
Includes residential construction; retail banking; temporary employment

LAGGING SECTORS
Includes manufacturing; retail; restaurants and hotels

CHANGE IN EMPLOYMENT



Source: Goldman Sachs, Bureau of Labor Statistics data THE NEW YORK TIMES

"Slowing wage growth and falling employment is absolutely toxic if your business is selling anything to consumers," said Ian Shepherdson, chief United States economist for High Frequency Economics.

Recent indications lend credence to the view that the job market is in the grip of a sustained downturn. Three weeks in a row, new unemployment claims have exceeded 380,000, a level generally associated with recession. Construction spending fell in May. The University of Michigan Consumer Sentiment Survey, which tracks attitudes about business and personal finance, has dropped to a depth last seen in 1980.

On the factory floor, a weak dollar has been fanning export sales. The I.S.M. Manufacturing Index — a widely watched gauge of factory activity — nudged up in June to 50.2 from 49.6 in May, entering barely positive territory, which indicates a slight expansion.

But that mostly reflected a buildup of inventories and higher prices for raw materials, and not an improvement in orders for factory goods, said Stuart G. Hoffman, chief economist at PNC Financial Service Group in a note to clients. If business stays weak and orders do not materialize, factory layoffs could accelerate. Indeed, the employment component of the index declined to its lowest level in five years.

The slide in the labor market has become both symptom and cause of a weak economy, pulling many families into a downward spiral. Back when housing prices were still rising, Americans borrowed exuberantly against the value of their homes to finance renovations, vacations and shopping sprees. But that artery of finance has constricted considerably along with access to credit cards, forcing a reversion to the traditional limits of household finance. Millions of American families must now confine their spending to what they can bring home from work.

With job losses growing and working hours shrinking, many paychecks are eroding, prompting millions of families to cut their spending. Soaring prices for food and gasoline are overwhelming modest wage gains for most workers, leaving households with even less money to spend. All of which deprives struggling businesses of sales, prompting them to shed more workers, sending the cycle down another turn. Starbucks announced on Tuesday that it would close stores and eliminate up to 12,000 jobs, about 7 percent of its work force.

The fear of a downward spiral prompted the Bush administration to unleash $100 billion worth of tax rebates in the hopes that recipients would spend money and spur sales. The Treasury has already dispensed more than $78 billion, and the money appears to be finding its way into cash registers, with consumer spending climbing by 0.8 percent in May, according to the Commerce Department. Economists expect the rebates will continue to help retail sales through the summer, fueling modest economic growth that spares some jobs and prevents an outright contraction.

But few expect these rebate-laced sales to expand the job market, because businesses understand that the one-time surge of money will wear off later this summer.

Many experts expect the economy to then be pulled back into the weeds by the same forces that have led the downturn — declining home prices, tighter credit and leaner paychecks.

"It's going to be very hard to overcome those headwinds," said Mr. Harris, the Lehman economist.

* "LAGGING" SECTORS MAY HAVE FURTHER ROUNDS OF JOB CUTS...

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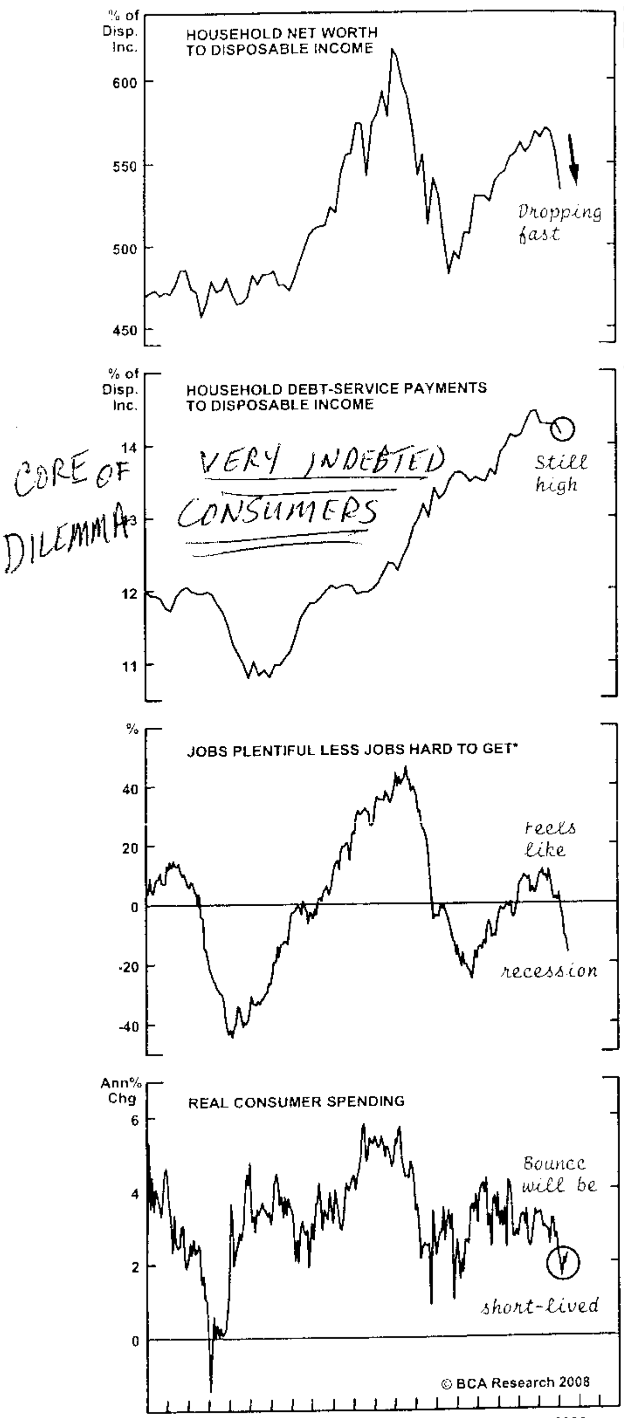
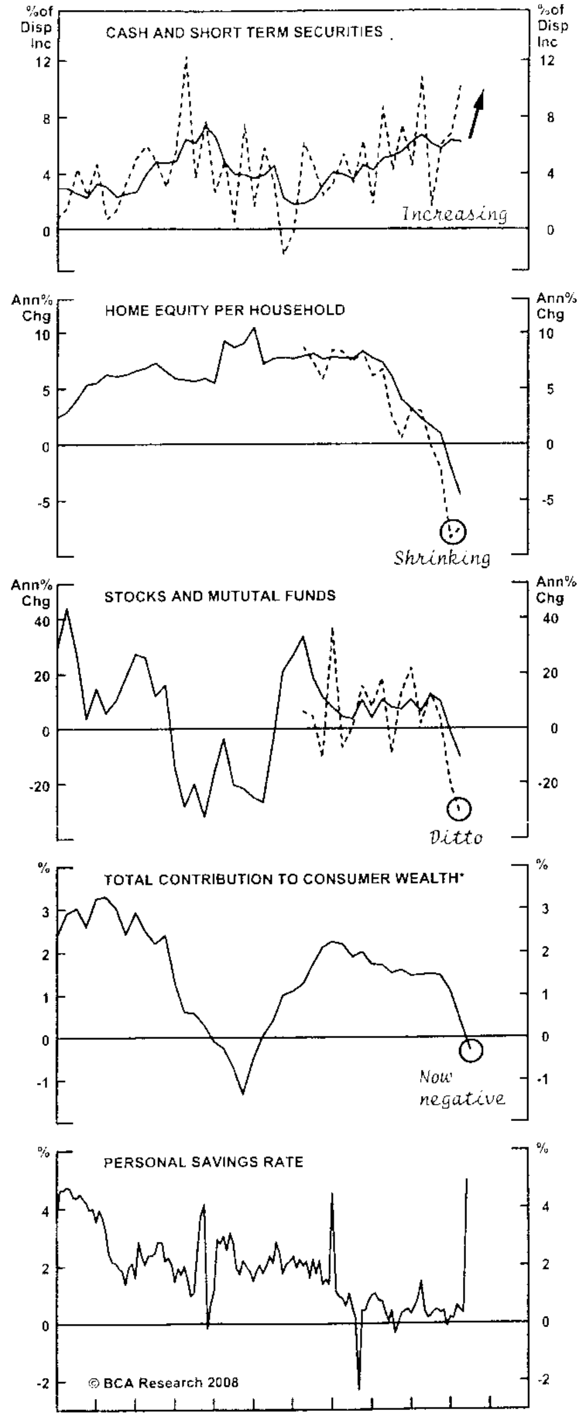
CHART 1
No Second-Half Bounce



*SOURCE: THE CONFERENCE BOARD

CHART 9
Consumer Retrenchment Underway



*TOTAL OF FINANCIAL MARKET AND HOUSING WEALTH, BASED ON:
4.5¢ PER DOLLAR OF FINANCIAL GAINS, AND
5¢ PER DOLLAR OF HOUSING GAINS ARE SPENT

(3)

NO NEAR-TERM BOUNCE IN HOUSING!!!

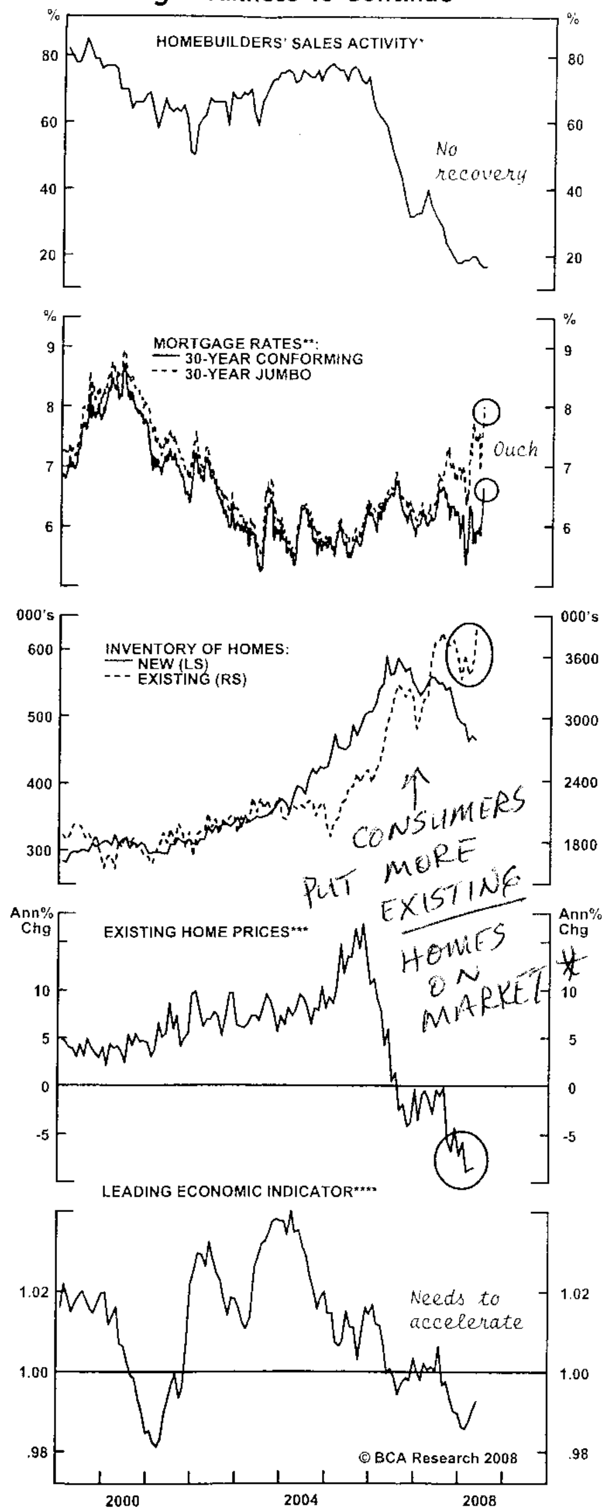
prices, rather than a broad-based rise in prices and wages.

Since the 1970s, BCA has used the analogy of a tapering wedge to describe the world as it navigated between an inflationary or deflationary outcome. The wedge is now uncomfortably narrow, despite the overwhelming focus on rising inflation in the financial community and press. The banking system and housing market could push the U.S. into a deflation, yet the consensus is focused on energy and food prices, transportation costs, rising wages in China, etc. There is much less focus on the potential deflationary risks if the U.S. economy were to deteriorate significantly further and/or more financial accidents erupt.

To this end, the housing market is critical, and here the news is bad. New home inventories have eased this year, but inventories for existing homes have soared to a record (**Chart 1**), as owners are bailing out because of a negative equity position or are being pushed out by rising borrowing rates or a lack of credit availability. Ominously, some mortgage rates have recently risen significantly. These rates need to fall in order to help stabilize the housing market. Conventional mortgage rates have surged by 100 basis points since the beginning of the year. Jumbo mortgage rates – to the extent they are even being granted – have soared to their highest level since 2000 (**Chart 1**). There has been no easing in mortgage costs despite the slashing of the fed funds rate (i.e. the Fed now faces another "conundrum", with monetary policy unable to provide relief to the private sector, much as rate hikes in 2004-2005 failed to have any effect on the housing market during the bubble).

Since the bursting of the housing bubble, homebuilder confidence has shown no sign of improving, as confirmed by the rock-bottom readings in the June Homebuilders survey (**Chart 1**).

CHART 1
Housing Weakness To Continue

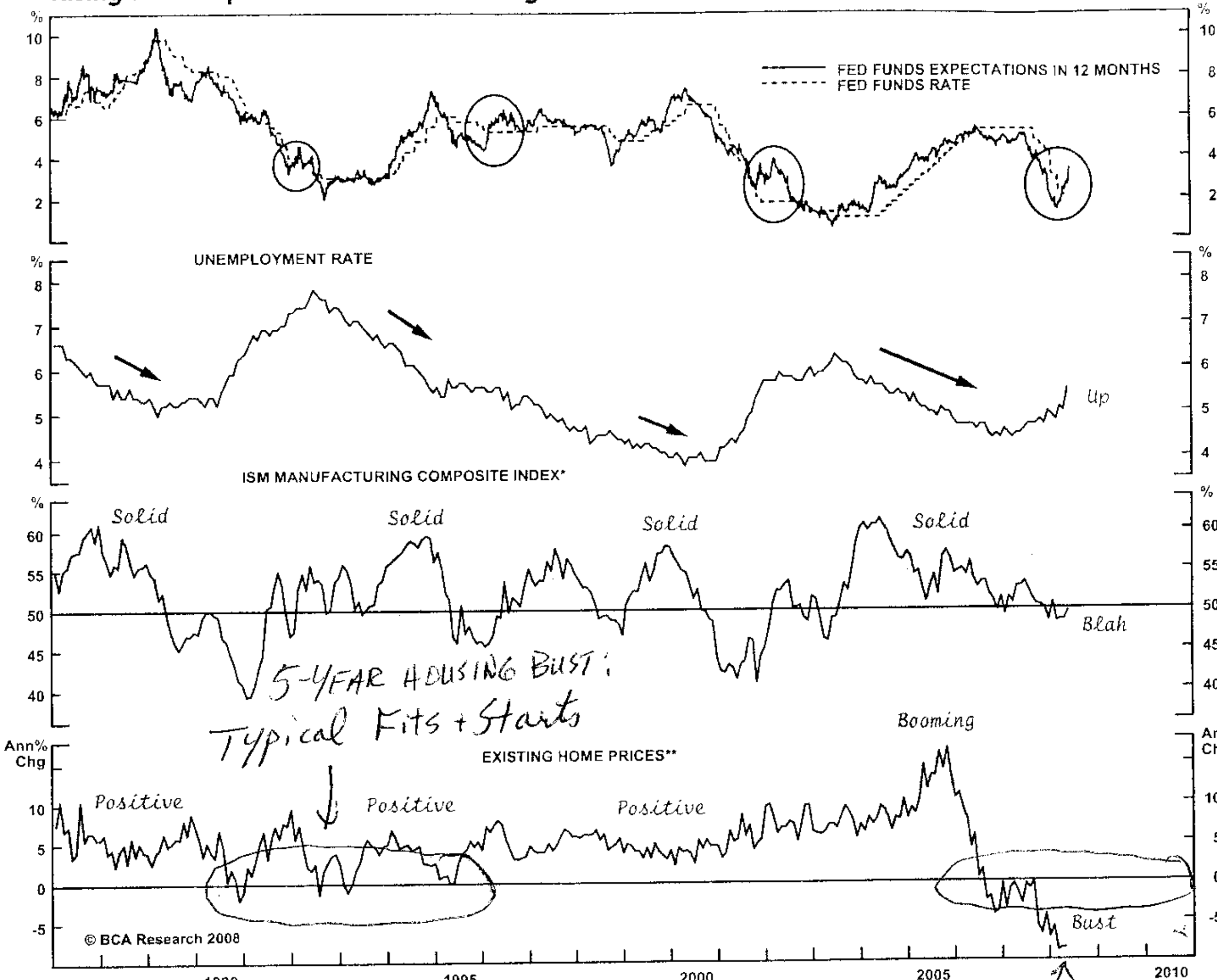


*SOURCE: NATIONAL ASSOCIATION OF HOME BUILDERS
**SOURCE: BANXQUOTE
***SOURCE: NATIONAL ASSOCIATION OF REALTORS
****SOURCE: THE CONFERENCE BOARD, SHOWN AS A DEVIATION FROM TREND

* WHAT WILL HAPPEN AS 70 MILLION AMERICANS RETIRE IN FACE OF FALLING MEDICARE BENEFITS

HOW LONG WILL THE HOUSING WEAKNESS LAST?

CHART 3
Rising Rate Expectations: Premature Again



*SOURCE: INSTITUTE FOR SUPPLY MANAGEMENT
**SOURCE: NATIONAL ASSOCIATION OF REALTORS
NOTE: SHADED FOR RISING FED FUNDS RATE

5-years this cycle has housing returning in 2009-2010

and food prices. Interest rate expectations occasionally rebounded during previous periods when the economy was weak and the banking system was under strain, but these proved brief and were soon reversed (**Chart 3**).

In the short run, risk assets will stay under pressure as a result of the deteriorating economic backdrop, courtesy of the premature rebound in interest rate expectations and punishingly high energy/food prices. Nevertheless, as detailed in the attached Special Report, we retain a modestly positive outlook for most spread product relative to the Treasury index.[1] Valuation is attractive in most sectors as a consequence of the generous liquidity premium still incorporated into non-government bond spreads. Investors will receive the benefit of this premium because the Fed will ultimately decide to stay on hold in order to combat the disinflationary effect of the collapse in house prices. We are less optimistic regarding the outlook for credit risk, as detailed below.

1 "The Outlook for Spread Product Under Easy Money," *U.S. Bond Strategy Special Report*, June 23, 2008.

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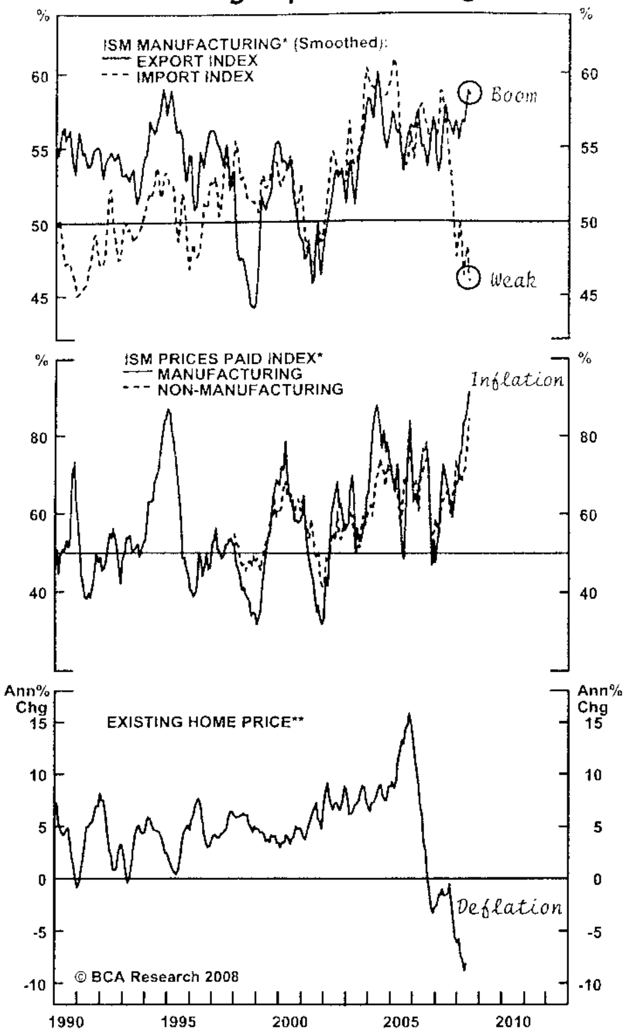
BRIGHT SPOT NOW: CONTINUING U.S. EXPORTS

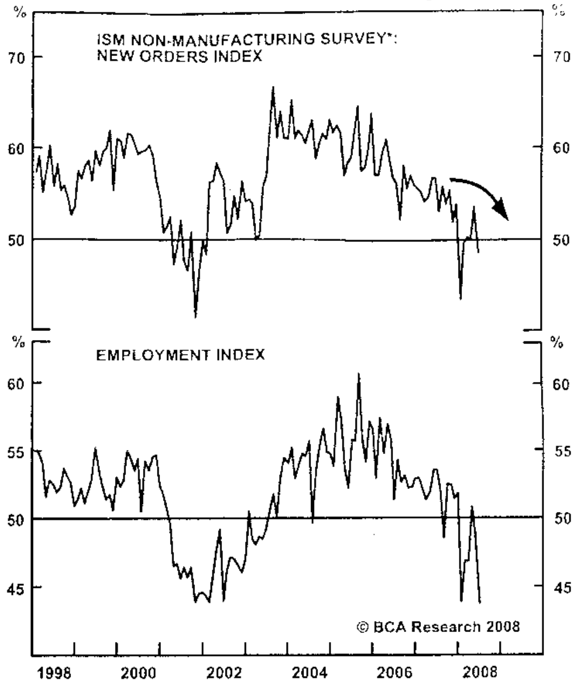
... WEAK DOLLAR NEEDED TO KEEP THIS UP...

CHART 12
Manufacturing Exports Booming...



*SOURCE: INSTITUTE FOR SUPPLY MANAGEMENT
**SOURCE: NATIONAL ASSOCIATION OF REALTORS

CHART 13
... But Service Sector Is Eroding



*SOURCE: INSTITUTE FOR SUPPLY MANAGEMENT

The Fed is torn because it is compelled to keep inflation expectations from rebounding in a lasting fashion, yet is mindful that the housing market is suffering its worst bout of deflation in the post-WWII period, which is threatening the banking system. Meanwhile, most of the business sector is suffering a squeeze from the boom in input costs because of weak selling prices. We expect the deflationary impact from housing, banking, and consumption to dominate over the next 6 to 12 months, which will allow inflation and inflation expectations to recede.

The ISM non-manufacturing survey echoed the inflation concerns prevalent in the manufacturing survey, although non-manufacturers were considerably more downbeat about demand. The new orders index broke below the boom/bust line in June, underscoring that final demand conditions continue to weaken (**Chart 13**). Moreover, the employment index plunged back to levels consistent with the 2001 recession. Respondents' comments once again focused primarily on high energy costs and confirm that oil prices have hit a choke point for final demand. Service sector companies are also reporting a significant margin squeeze. Some combination of lower energy prices and lower private sector borrowing rates is necessary before business optimism will sustainably improve.

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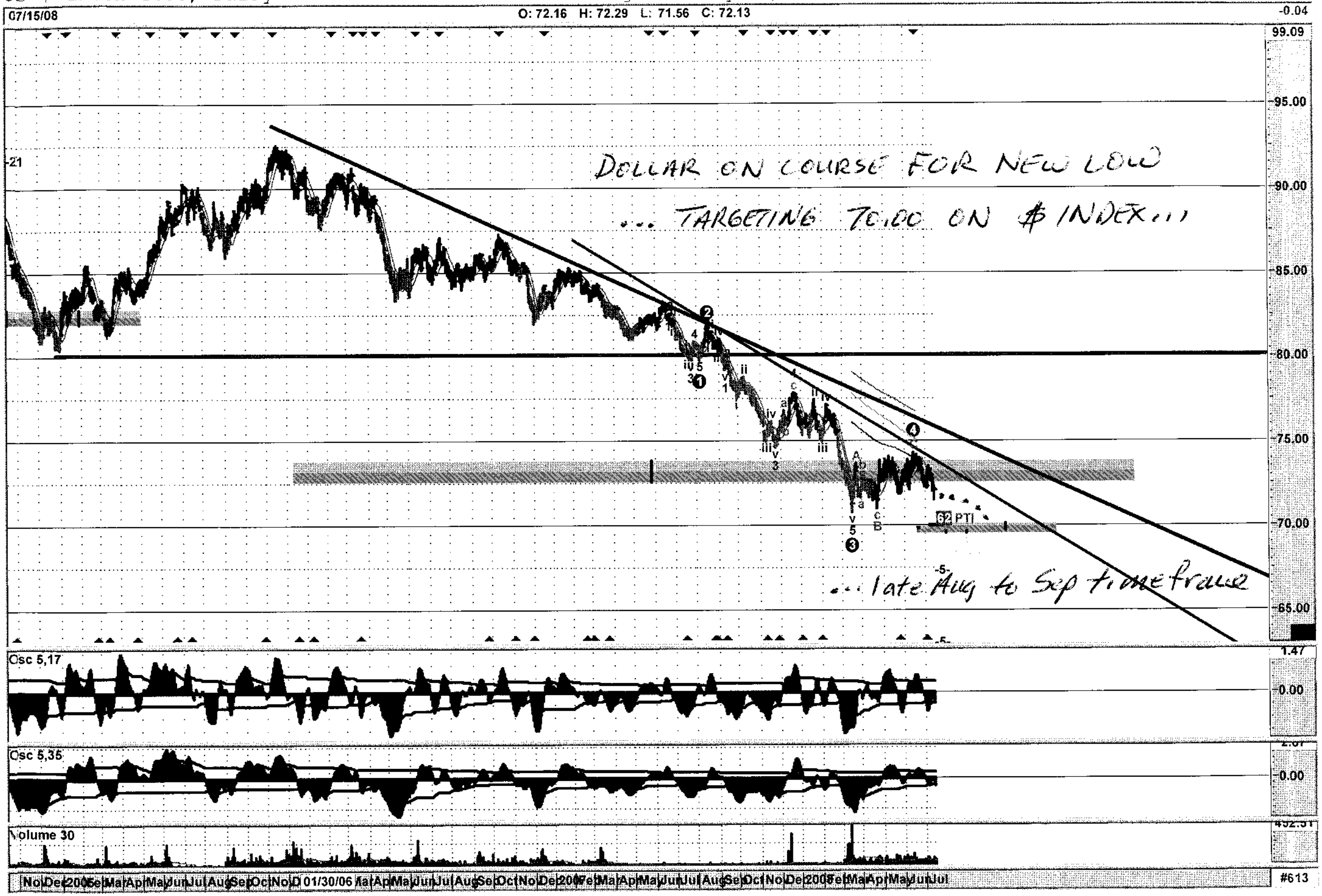

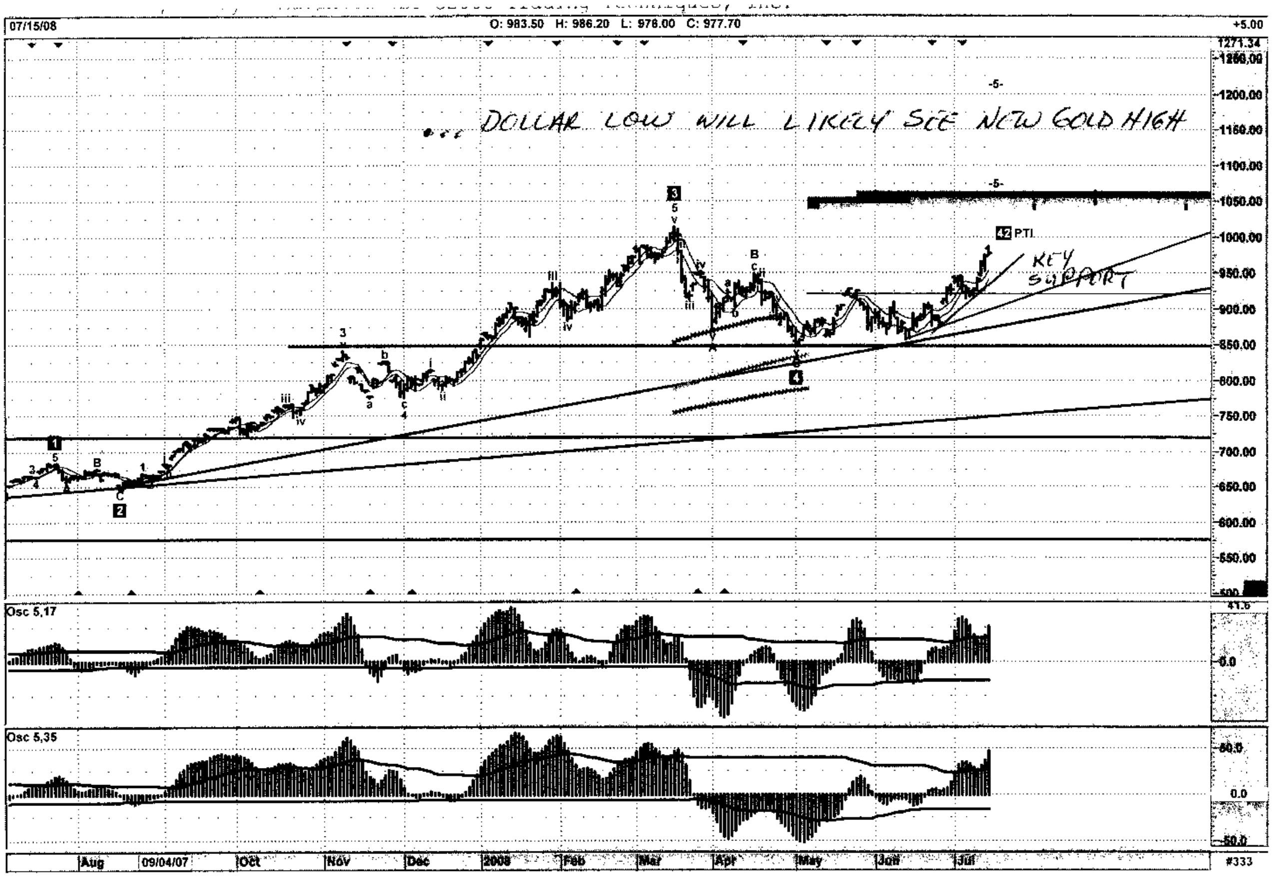
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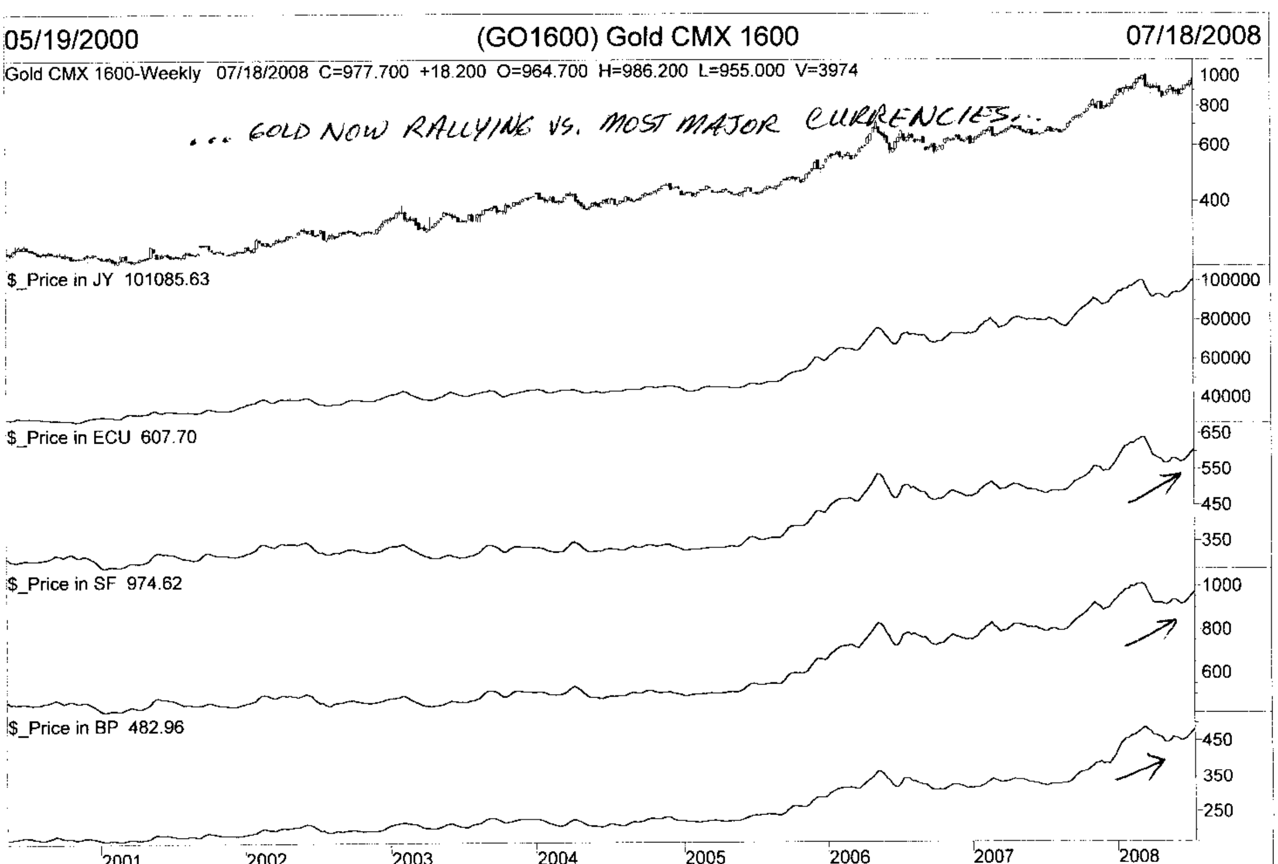
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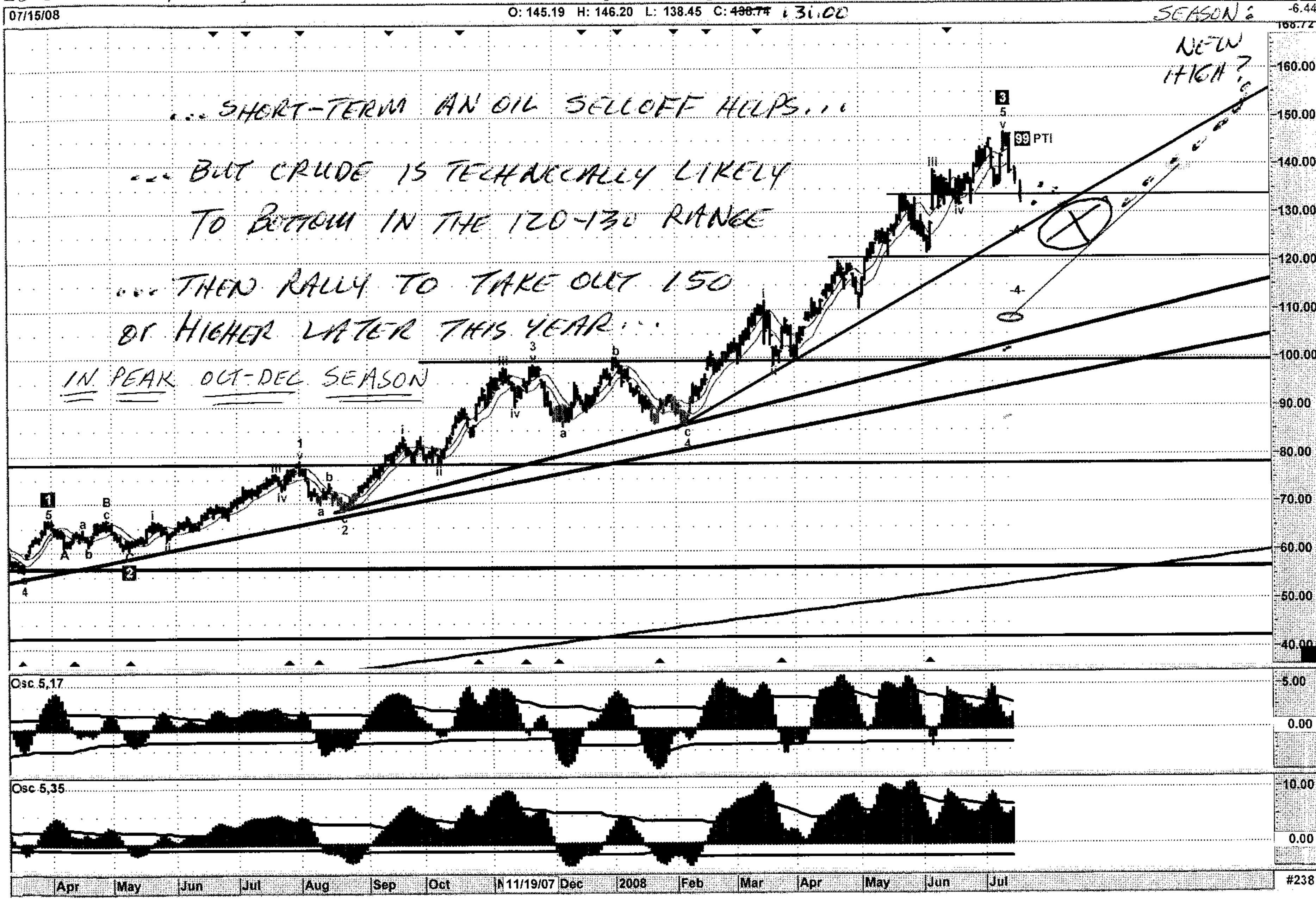
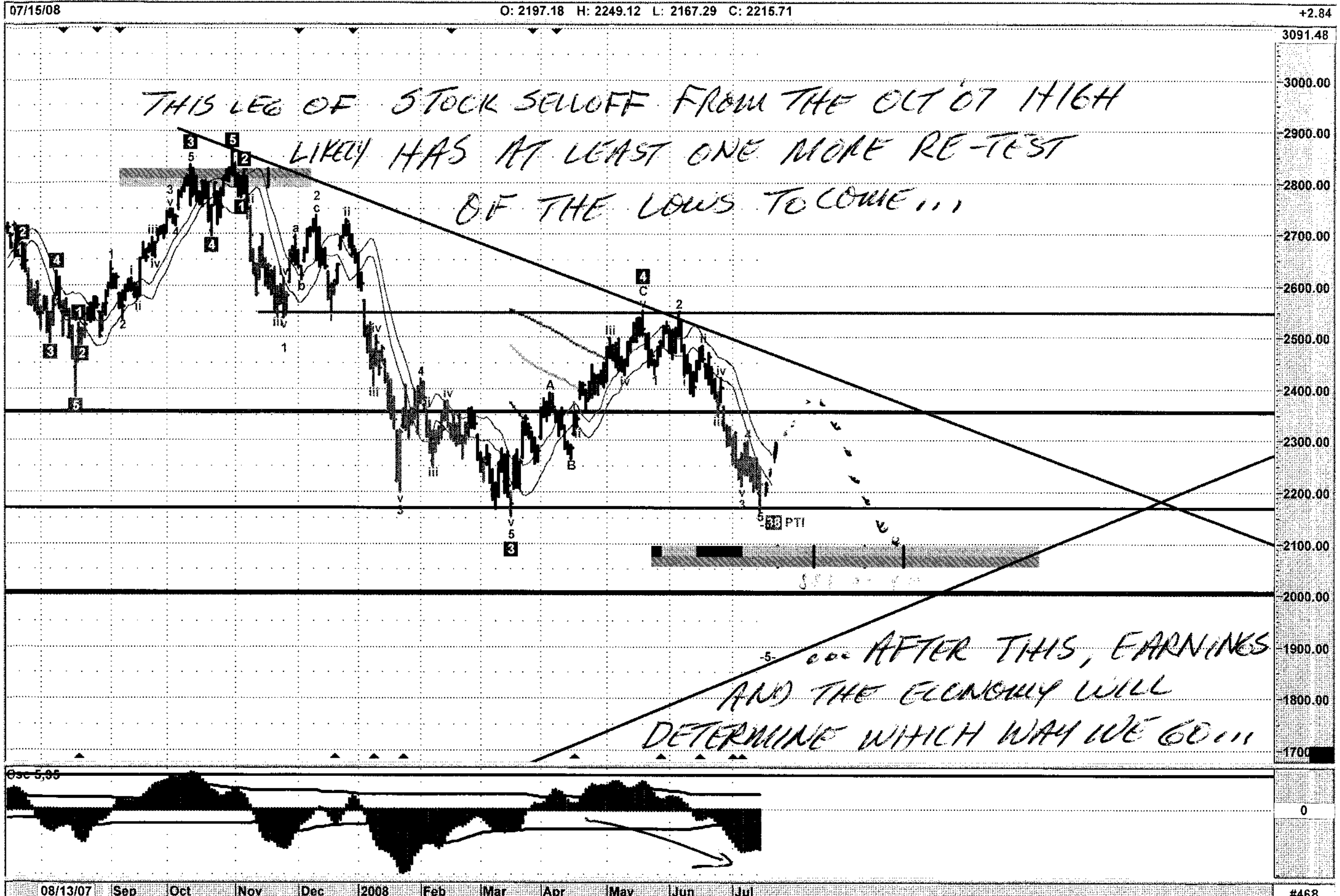


*OTC - NASDAQ Composite, Daily - Advanced GET ©2008 Trading Techniques, Inc.



(10)

Will Earning Show Spread Of Malaise?

BRACE YOURSELF for another ugly earnings season Wall Street didn't see coming.

Alcoa reports Tuesday, launching an armada of second-quarter profit results. Staying afloat will be a challenge. Wall Street analysts estimate S&P 500 operating earnings—income excluding one-time items—fell 11.5% in the second quarter from a year earlier, the fourth straight negative quarter. That's the longest such stretch since 2001-02.

By Mark Gongloff

Based on their track record, analysts likely underestimate how bad earnings will be. In every quarter so far in this downturn, they have slashed forecasts as reporting season approached. By the time it ended, those expectations were revealed as still too optimistic.

That trend is in place for the second quarter. When it began, on April Fools Day, analysts expected a 2% earnings decline. Now that it's over, they think earnings fell 11.5%. If history is a guide, the final tally will look a good bit worse.

In analysts' defense, the bulk of the profit pain so far has been inflicted by financials, mainly through massive eruptions of credit-related write-downs, the size of which has blindsided analysts.

"I would hate to cover these industries," says David Dropsey, senior research analyst at Thomson Reuters. "The estimates are virtually meaningless."

One big difference between this earnings recession and the one in 2001-02 has been how well most sectors have held up. In the profit downturn earlier this decade, earnings in most S&P industries quickly turned negative. In this downturn, at most only three or four have been negative at any one time.

That could mean the economy has effectively compartmentalized the damage in financials, housing and autos, keeping the whole ship afloat. Or it could mean the pain has only just begun to filter through.

Analysts seem to hold the rosier view: They see earnings rising 13% in the third quarter and 59% in the fourth quarter.

These predictions assume losses in the financial sector are largely over. That may be asking too much, given the continuing pain in housing and credit markets. That doesn't bode well for compartmentalization, either.

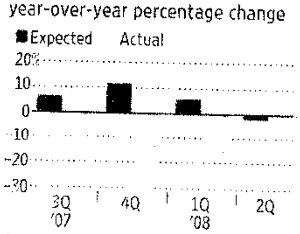
"If banks are recapitalizing, their ability to lend is constrained," says Don Brownstein, Chief Executive of Structured Portfolio Management, a Stamford, Conn., hedge fund specializing in mortgage-backed securities. "That eventually will filter through to the economy."

By some measures, it already has. More than 55% of U.S. banks tightened lending standards for large and midsize companies in the second quarter, according to a recent Federal Reserve survey, the highest since the first quarter of 2001. In the two other instances of such harsh tightening since 1990, a steep profit decline followed three quarters later, notes Citigroup chief U.S. strategist Tobias Levkovich.

Meanwhile, an energy-price shock is threatening a recession. And overseas economic growth is slowing, putting at risk an export boom that has helped keep earnings in most sectors positive.

Says Bank of America's chief market strategist Joseph Quinlan: "Disappointing guidance from U.S. multinationals regarding global earnings could be the next shoe to drop."

Expected vs. reported quarterly S&P 500 earnings growth, year-over-year percentage change



Source: Thomson Reuters Datastream

11

LAST 3 QUARTERS, CORPORATE "ACTUAL" PROFITS HAVE COME IN BELOW EXPECTATIONS... THIS IS TYPICAL OF BEAR MARKET SELLOFFS...

The Bear's Back

Now we hear "bear market" in July!
We first called it a bear in January!
Bear Market headlines often signal a rally

Barron's

7-July-2008

(Barron's) - IT'S OFFICIAL: THE BEAR HAS ARRIVED. The Dow Jones Industrial Average last week qualified for the widely accepted definition of a bear market of a 20% drop from the highs. The good news is that once the decline reaches that arbitrary 20% mark, based on history, the market has suffered most of its losses. The bad news is that the decline typically drags on for some time, and time may be the worst enemy. Investors may initially try to grab erstwhile highfliers that have crashed and burned but rarely regain their former status. And as the decline wears down investors' psyches, they tend to bail out at the market's nadir, when things look bleakest -- and when the greatest opportunities present themselves.

The post-1940 average bear market (as defined by the Standard & Poor's 500 index) produced a decline of 30.4% from a peak that took 386 days to reach its trough, according to data compiled by Bespoke Investment Group. By the time the market was down the requisite 20%, the average bear market was 74% completed. Based on those averages, the bear market would have another 118 days to run and would face losses of another 14% from current levels.

Rarely does the market get a short, sharp shock, as in 1987, when the bear market lasted just 101 days -- with most of the total damage of 22.51% done on Black Monday, Oct. 19. The longest march downward was the 1973-74 decline, which took 630 days and sliced 48.2% off the S&P.

BUT BESPOKE DEFINES two separate bear markets following the bursting of the technology bubble -- an initial 36.77% drop from March 2000 to September 2001, punctuated by a brief, post-9/11 recovery until the next decline of January-July 2002 of 31.97%. In the minds of most investors who suffered through that period, it was three long years of false starts and frustration until the recovery really got under way, in March 2003.

Signs of bear-market fatigue already are becoming evident. Investors have yanked more than $80.4 billion from domestic equity funds in the past 12 months, according to Investment Company Institute data parsed by Bianco Research. Overseas funds drew $75.7 billion from American mutual-fund investors, leaving a net equity fund outflow of $4.7 billion.

What's more, there have been few hiding places other than commodities, observes Jack A. Ablin, chief investment officer at Harris Private Bank. Even Warren Buffett isn't immune, with Berkshire Hathaway (ticker: BRKA) off 21% from its peak.

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The foreign stocks Americans have been flocking to lost nearly as much as U.S. equities, despite help from the falling dollar. The MSCI EAFE, the benchmark for developed markets outside the U.S., suffered a negative 10.58% total return in the first half, according to Bianco Research, compared with a negative 11.91% for the S&P. Emerging markets were slightly worse than the EAFE, with a negative 11.64% return, according to MSCI's measure. Even the once hotter-than-hot China market has gone into a deep-freeze; the iShares FTSE/Xinhua exchange-traded fund (FXI), a popular way for Americans to play that market, is down 43% from its high last October. Bonds other than Treasuries lost money in the first half, especially corporates, junk bonds and municipals. Meanwhile, the Dow Jones-AIG Commodity Index returned 27.23% in the first six months of 2008.

Yet there's little prospect for relief in the near term, especially as the second-quarter earnings reporting season is about to kick off. Despite its near 20% retreat, the S&P 500 remains too high relative to prospective earnings, says Ablin. Even though analysts have slashed their 2008 earnings forecasts to just 5.8% gains from 15% at the beginning of the year, he thinks they're still too optimistic. Based on his estimated profit gains this year of 3%, and an earnings yield (the inverse of the price-earnings multiple) equal to triple-B corporate bonds' 6.8%, Ablin's model indicates the S&P should shed another 5%.

ANALYSTS NOW "SLASHING" ESTIMATES TO TRY AND GET "UNDER" THE ACTUALS... THIS IS NEEDED TO RESTORE CONFIDENCE.

But others see the current decline as another phase in a longer-term secular bear market. "We are still in the super bear of 2000," asserts Jeremy Grantham, chairman of money manager GMO. In a bear market, stocks fall back to, or below, their long-term trend line. But

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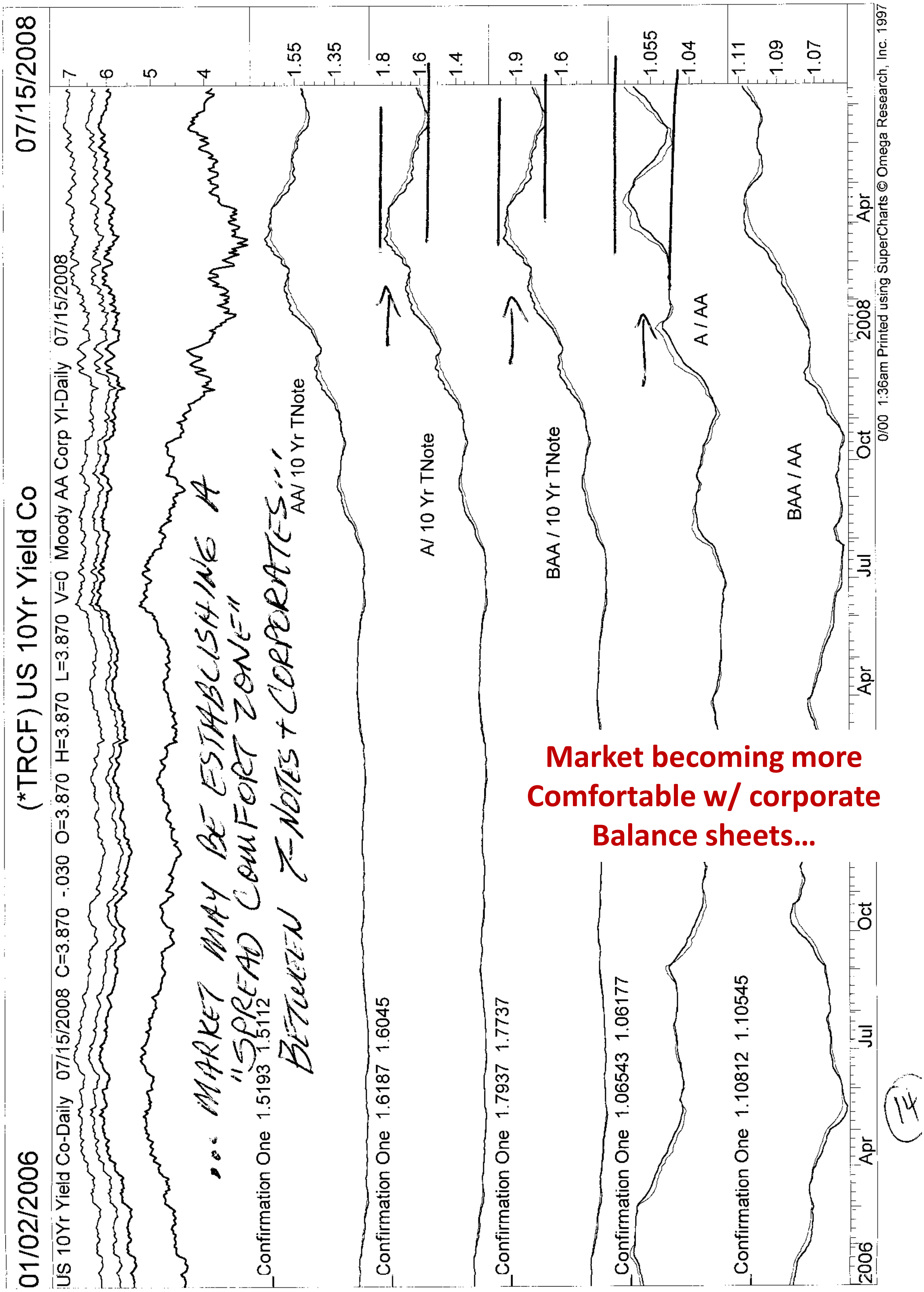

Market becoming more Comfortable w/ corporate Balance sheets…